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SUBJECT: HIGH DEMAND FOR CEMENT CHALLENGES LOCAL CEMENT PRODUCTION CAPACITY IN BENIN

¶1. SUMMARY: Benin's cement plants are struggling to meet unprecedented high demands for cement from estate developers, road construction firms, and individuals. This situation exacerbated by the smuggling of cement to Nigeria has triggered a cement shortage in Benin. The GOB's tax exemption measures to encourage cement and clinker imports to offset the gap are not yielding the expected results. END OF SUMMARY

¶2. There are currently three cement plants in Benin including two private plants and one Nigeria-Benin joint parastatal given as a concession by the governments of the two countries to a private company, SCB-Lafarge. The monthly production of all three totals 110,000 tons, however well below the market demand, which is estimated to be over 200,000 tons. The Director of Internal Trade announced publicly that 60 percent of SCB-Lafarge's monthly production (45,000 tons) had been shipped to Nigeria under an output sharing agreement the two countries signed. However, the Director of Internal Trade underscored that the GOB succeeded in negotiating with its Nigerian counterparts to bring the Nigerian allotment down to 15,000 tons to ease the cement crisis in Benin. In addition, one of the two private cement plants imports 5,000 tons each month from its Togolese branch to improve the situation.

¶3. The primary reason for the cement crisis is the high use of cement in road and housing construction initiated by the GOB. Presently, the construction of two hundred houses is underway in Cotonou within the framework of the government's policy to equip the country with a certain number of luxury houses. On completion, these houses when completed will be sold to individuals. The GOB, in conjunction with estate developers and the Libyan government has initiated the construction of 69 presidential size villas to accommodate visiting heads of state participating in the Community of Sahel-Saharan States or CEN-SAD summit to be hosted by Benin in June 2008 (Septel). These projects alone consume about 30,000 tons of cement per month.

¶4. The second trigger for the cement shortage is the smuggling of cement to Nigeria. A ton of cement costs about 160 USD in Benin and almost 300 USD in Nigeria. All three cement plants are located at about a 30 minute drive from the Nigerian border. Therefore, individuals and cement retailers illegally direct part of the estimated 50,000 tons of cement, destined for individual consumption in Benin, to the Nigerian border where they make almost a hundred percent profit. However, the Director of Internal Trade affirmed that the smuggling alone could not explain the scarcity of cement in the country. He accused retailers of creating artificial shortages in the field. For example, some consumers are buying a ton of cement at prices ranging between USD 198 and 209. The Director regretted the GOB's failure to combat the cement smuggling to Nigeria, because consumers in dire need of cement are reluctant to denounce

speculators.

¶5. To encourage the cement plants to reduce production costs, the GOB exempts customs duty on clinker, the raw material used to produce cement. It also has exempted them from paying taxes on profit over renewable periods of three months starting from November, 2007. The GOB also authorized about 150 businesses to import cement duty-free from overseas and Togo. Only a few traders have taken advantage of this measure, however, and the imported quantity does not meet the demand. As a result, the majority of private building construction projects are on hold until cement becomes available.

¶6. The GOB has authorized the construction of two additional private cement plants, including one owned by the Senegalese Fauzie Layouse Group. These two plants are expected to start operating in 2009 and produce 600,000 and 1,200,000 tons respectively per year. As a result the national production of cement should increase by almost 136 percent.

COMMENTS: The current cement shortage is unprecedented in Benin. The road and housing infrastructure underway in the country is the main cause of the crisis, which has revealed the production limit of the existing cement plants. Their output currently amounts to only half of the demand. The addition of two new plants should bring supply in line with the demand, allow Benin to export legally to the Nigerian market, and prevent a recurrence of this kind of crisis as the GOB extends the housing policy to other major cities. Economic observers expect the GOB's real estate and road infrastructure policies to boost the country's economy.

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